

ACCOUNTING

March-April 2021

Time Allowed -2.15 hours

Total Marks -100

[N.B – The figures in the margin indicate full marks. Questions must be answered in English. Examiner will take account of the quality of language and of the way in which the answers are presented. Different parts, if any, of the same question must be answered in one place in order of sequence.]

- | | Marks |
|---|--------------|
| 1. (a) “Accounting equation is the basis of double entry accounting” –explain. | 2 |
| (b) Define ‘Unearned Revenue’ with an example. What are the mandatory conditions to transfer unearned revenue to earned income? | 2 |
| 2. (a) In the context of IAS 2 – Inventories | |
| (i) Outline the items which comprise inventory. | 2 |
| (ii) Explain how inventories are measured. | 2 |
| (iii) Provide three examples of costs which are specifically excluded from the costs of inventories and instead are recognised as expenses in the period in which they are incurred. | 3 |
| (iv) Briefly discuss three situations in which net realisable value is likely to be less than cost. | 3 |
| (b) If you look at the financial statements of Public Interest Entities (PIEs), you may find non-compliance of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). What steps, according to your view, should be taken and who should lead the step(s) to implement IAS and IFRS in preparing financial statements of the companies. | 4 |
| 3. The summarized income statement of Shipon Limited shows the following as on 31 December 2020. | |

	<u>Taka</u>
Sales	9,00,000
Cost of goods sold	6,00,000

Gross Profit	3,00,000
Selling and admin expenses	1,50,000

Net Profit	1,50,000
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An examination of the records disclosed the following errors in summarizing transactions:

- (i) Ending inventory was overstated by Tk. 41,000.
- (ii) Sales worth Tk. 5,000 was not recorded though the goods were already shipped.
- (iii) Accrued interest on long term loans of Tk. 6,000 and deferred revenue of Tk. 10,000 were not given accounting recognition.
- (iv) Purchase worth Tk. 20,000 was not recorded during the year.
- (v) A machine was sold for Tk. 20,000 and it was credited to sales account. The machine was originally purchased at Tk. 1,00,000 five years ago. Machine life was estimated at 5 years. No depreciation was charged in the last year.

Required: Pass the correct journal entries and prepare a revised income statement for the year ended 31 December 2020.

4. The selling expenses of Ali Baba Limited for 2020 are 10% of net sales, Administrative expenses, excluding bad debts are 25% of cost of goods sold but only 15% of net sales. Bad Debts are 2% of net sales. The beginning inventory was Tk. 3,10,000 and it has been decreased by 25% during the year. Net profit for the year before 40% income tax is Tk. 2,60,000.

Required: Prepare an Income Statement for the year ended 31December 2020 showing necessary calculations.

5. A business has a rate of inventory turnover of 10 times per year. Average inventory is Tk. 16,000. Mark-up is 40%. Expenses are 55% of the gross profit.

You are required to calculate: (i) Cost of goods sold, (ii) Gross profit, (iii) Turnover, (iv) Total expenses and (v) Net profit. 5 X 2=10

6. Northern Limited's book shows a cash balance of Tk. 300,000 on its account maintained with East Bangla Bank Ltd as at 30 June 2020. A Bank statement as at 30 June 2020 showed that the company has an overdraft of Tk. 18,000. An examination of Northern's books of accounts and bank statement revealed the following:

- (i) A payment of Tk. 84,000 has been recorded as Tk. 48,000 in cash book.
- (ii) Cheques numbering 1238415, 1238523, 1238524 and 1238525 for Tk. 80,000, Tk. 80,000, Tk.150,000 and Tk. 90,000 respectively were written before year end which was not presented to the Bank.
- (iii) Excise duty of Tk. 28,000 collected by bank from company's bank account but company did not record it in its books.
- (iv) A Cheque for Tk. 356,000 has been deposited to the bank for clearing but not credited by bank.
- (v) An advice for transferring salaries of June to employees' account from company's corporate account has been sent to Bank on 30 June 2020 but Bank did not transfer the salaries to employees account on June 30 due to insufficient fund. Total amount of salaries for June was Tk. 500,000.
- (vi) The company has re-drawn a cheque for Tk. 80,000 (Cheque number- 1238415) as the previous one became a stale cheque and recorded it again in cash book.
- (vii) Northern Limited sent an advice to transfer interest amounting to Tk. 48,000 earned as on 30 June 2020 from fixed deposits maintained with the bank to current account. Accordingly, company credited its cash book on 30 June but bank made the transfer on 1 July 2020.
- (viii) One of the company's customer's cheque for Tk. 750,000 was recorded and banked but subsequently it was returned back from customer's banker and marked as "NSF".

Required:

- a) **Determine the correct cash book balance.** 7
 - b) **Prepare bank reconciliation statement at 30 June 2020.** 5
7. Prepare Journal Entries of the following in order to prepare annual financial statements of Zed & Co for the year ended June 30, 2020. 10
- (i) Closing stock at market value as on June 30, 2020 was Tk. 1,00,000 (cost Tk. 80,000). Stock is being valued on a consistent basis at cost or market price whichever is lower.
 - (ii) No entry had been passed in the books for stock withdrawn from the business by the proprietor amounting to Tk. 15,000.
 - (iii) An amount of Tk. 1,00,000 received in respect of new capital introduced by the proprietor was wrongly credited to Sundry Debtors Account.
 - (iv) Proprietor had taken for personal use goods costing Tk. 10,000 which had a market value of Tk. 12,000. Sales were credited by Tk. 9,000.
 - (v) A dishonored bill receivable for Tk. 40,000 returned by the bank with whom it had been discounted, had been credited to Bank Account and debited to Bill Receivable Account.

8. The following is the financial position of Robotic Limited as on January 01, 2020.

Accounts Receivable	7,25,000
Less: Allowance for doubtful debts	(15,000)
	<u>7,10,000</u>

During the year of 2020, the following transactions were made related to receivables:

- (i) Credit sales Tk. 19,00,000.
- (ii) Collection from receivable account Tk. 1,50,000.
- (iii) Write off (a) accounts receivable deemed uncollectable for which no allocation for doubtful account was provided for amounting to Tk. 11,000 and (b) accounts receivable deemed uncollectable for which allowance for doubtful account was provided for amounting to Tk. 2,500.
- (iv) Recovery from accounts receivable written off in previous years Tk. 6,000.
- (v) Estimated allowance for doubtful accounts are to be maintained at 0.40% of sales on credit.

Required: Prepare an extract of the notes to present accounts receivable in the statement of financial position as on December 31, 2020.

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9. The following balances are taken from Mrs. Faria Irani as on 30 June 2020.

Sundry Creditors	2,90,000	Bad Debts	1,000
Building	1,50,000	Loan from Brian	25,000
Income tax	10,250	Sundry Debtors	95,000
Loose Tools	10,000	Investments	65,000
Cash at Bank	1,65,350	Provision for bad debts	16,000
Sundry expenses	19,900	Rent and Rates	8,500
Bank Interest (Cr)	750	Furniture	30,000
Purchase	15,70,000	Inventory (1.7.2019)	2,73,500
Wages	1,00,000	Capital	4,73,900
Carriage Inward	11,200	Discount Allowed	6,300
Sales	18,50,000	Dividend Received	5,350
Motor Van	1,25,000	Drawings	20,000

The following adjustments to be taken into account:

- (i) Write off further Tk. 3,000 as bad out of Sundry Debtors and create a provision for bad debts at 20% on Sundry Debtors.
- (ii) Dividends accrued and due on Investments is Tk. 1,350. Rates paid in advance Tk. 1,000 and wages owing Tk. 4,500.
- (iii) On 30 June 2020 Inventory was valued at Tk. 1,50,000 and Loose tools were valued at Tk. 8,000.
- (iv) To write off 5% for depreciation on Building and 40% on Motor Van.
- (v) To provide for interest at 12% p.a. due on loan taken on 1.9.2019.
- (vi) Income tax paid has to be treated as Drawings.

Required: Prepare the Income Statement for the year and Statement of Financial Position as on 30 June 2020.

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The End